Raw gold (Shutterstock)

Cooling inflation and hot geopolitics spell higher gold prices ahead

16 July 2024, 2:00 pm HKT, written by Jon Gordon

Gold is on track for its third consecutive weekly gain, benefiting from surprise progress on inflation and more dovish commentary from Fed speakers. Lower rates are a key driver for higher gold prices this year, but it's not the only one, with ETF buying, global conflict, and election uncertainty all offering support, too.

Gold prices have steadied near USD 2,377 per ounce on Friday, on track for its third consecutive weekly gain after cooler-than-expected US inflation data and reassuring Federal Reserve commentary. US headline CPI for June fell 0.1% month over month, its first decline since December 2022, while the core measure (ex-food and energy) rose just 0.1% m/m in June, its slowest pace in three years.

Following the data, San Francisco Fed President Mary Daly expressed "relief" on inflation but said progress could be bumpy, with one or two rate cuts this year "more or less" appropriate. Chicago Fed President Austan Goolsbee likened keeping rates steady to tightening policy. The CPI report has added to market confidence that Fed easing is imminent, leaving markets pricing in a 90% chance of a rate reduction at the September policy meeting, up from around 70% prior to the CPI data.

Declining US rates tend to support gold prices as this reduces the opportunity cost of holding the non-yielding asset. Alongside positive inflation and rate dynamics, we see several other factors supporting gold prices in the months ahead:

ETF, central bank buying is continuing. Following the financial and debt crises and more recently the war in Ukraine, a number of central banks are now questioning the safety of holding USD- and EUR-denominated assets. Many of these central banks are instead choosing to fill their reserves with gold, leading this group to account for nearly a quarter of total gold demand. With de-globalization and de-dollarization trends likely to continue over the decade ahead, we see yearly average buying remaining above the previous levels. At the same time, ETF inflows are starting to show signs of life. Global physical gold ETFs drew their second straight month of inflows in June, growing by a net USD 1.4bn among stronger demand from Asia and other lower-yielding economies, according to World Gold Council data.

Global conflicts and wars are not cooling off. The precious metal remains a preferred hedge to global conflicts for many investors at a time when the world is not growing more peaceful. NATO leaders in Washington this week announced new weapons and long-term aid for Ukraine on its “irreversible path” to integration, and the US pledged to deploy longer range missiles in Germany in 2026. The 32 NATO allies for the first time labeled China a “decisive enabler” of Russia’s war, drawing complaints of “lies, incitement, and smears” from Beijing. Closer Russia-North Korea ties have also alarmed South Korea and Japan’s leaders. Elsewhere, complex Gaza ceasefire talks continue amid continued airstrikes and hostilities. Yemen’s Houthi rebel forces have claimed responsibility for new strikes on maritime trade vessels, keeping pressure on global supply chains.

Elections are clouding the policy outlook. US President Joe Biden on Thursday hosted an hour-long unscripted press conference, as he seeks to reboot his candidacy and counter viability concerns following his shaky debate performance last month. Pressure on Biden to step aside has ramped up, with CNN on Thursday reporting private doubts from Nancy Pelosi and Barack Obama over his electability. Following the late June debate, we have raised the probabilities of a second Trump presidency. Political uncertainty is not limited to the United States, with the surprise surge of France's left-wing New Popular Front (NFP) alliance in the second-round legislative elections resulting in a hung parliament, posing new uncertainty on fiscal spending and the composition of government.

So with all these factors in view, we remain most preferred on gold in our global strategy and anticipate higher prices in the months ahead. We forecast gold could rise to USD 2,600/oz by the end of this year, and to USD 2,700/oz by mid-2025. For investors considering portfolio level exposure, we view gold as an effective hedge for geopolitical polarization and conflict, inflation, and excessive deficits. Investors should also prepare their portfolios for lower rates by locking in still-high yields on quality bonds and by managing liquidity needs through bond ladders. Alongside modest allocations to gold, we recommend that investors diversify their portfolios to balance equity and fixed income exposure against less-correlated alternative assets, such as private market and hedge fund exposure.

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